

Report on the

# Alabama Technology Network

Montgomery, Alabama

October 1, 2019 through September 30, 2020

Filed: August 13, 2021



## Department of Examiners of Public Accounts

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*Rachel Laurie Riddle, Chief Examiner*





Rachel Laurie Riddle  
*Chief Examiner*

**State of Alabama**  
Department of  
**Examiners of Public Accounts**

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Honorable Rachel Laurie Riddle  
Chief Examiner of Public Accounts  
Montgomery, Alabama 36130

Dear Madam:

An audit was conducted on Alabama Technology Network, Montgomery, Alabama, for the period October 1, 2019 through September 30, 2020. Under the authority of the *Code of Alabama 1975*, Section 41-5A-19, I hereby swear to and submit this report to you on the results of the audit.

Respectfully submitted,

Joseph Calvert  
Examiner of Public Accounts

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## Department of **Examiners of Public Accounts**

### **SUMMARY**

#### **Alabama Technology Network October 1, 2019 through September 30, 2020**

The Alabama Technology Network (“ATN”) provides workforce development and technical assistance to manufacturers and businesses throughout Alabama, through the expertise of field staff located at fourteen community colleges, the University of Alabama in Tuscaloosa and Huntsville, and Auburn University. ATN accomplishes this by providing hands on training and technical assistance that create jobs, save jobs, increase sales, and/or reduce the cost of doing business. ATN links the state’s manufacturers with cutting edge solutions and resources from around the country. As an affiliate of the Department of Commerce’s National Institute of Standards and Technology (NIST) Manufacturing Extension Partnership (MEP) program, ATN offers solutions in virtually all areas of manufacturers’ operations.

ATN is a publicly supported institution in the Alabama Community College System. ATN is under the direction and control of the Alabama Community College System Board of Trustees through the Chancellor of the Alabama Community College System Office.

This report presents the results of an audit, the objectives of which were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the Network complied with applicable laws and regulations, including those applicable to its major federal financial assistance programs. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, as well as, the requirements of the Department of Examiners of Public Accounts under the authority of the *Code of Alabama 1975*, Section 41-5A-12.

An unmodified opinion was issued on the basic financial statements, which means ATN’s financial statements present fairly, in all material respects, its financial position and the results of its operations for the fiscal year ended September 30, 2020.

Tests performed during the audit did not disclose any significant instances of noncompliance with applicable state laws and regulations.

### **EXIT CONFERENCE**

The following officials/employees were invited to an exit conference to discuss the results of this audit: Keith Phillips, Executive Director; Jody Upchurch, Director of Finance and Accounting and Jimmy Baker, Chancellor of the Alabama Community College System. The following individuals attended the exit conference via teleconference: Keith Phillips, Executive Director; Jody Upchurch, Director of Finance and Accounting, Becky Estes, Business Manager and Tanesha Richburg, Netsuite Administrator. Representing the Alabama Community College System was Sara Calhoun, Executive Director of Fiscal Services; Brian Harrison, Associate Director of Financial Services – System Support, Donna Boutwell, Director of Compliance and Julia Dennis, Financial Compliance Accountant. Representing the Department of Examiners of Public Accounts was Annette G. Williams, Audit Manager and Joseph Calvert, Examiner.



Department of  
**Examiners of Public Accounts**

**COMMENTS**

**Alabama Technology Network  
October 1, 2019 through September 30, 2020**

The Alabama Technology Network (“ATN”) is a part of the Alabama Community College System and the Manufacturing Extension Partnership. ATN's team of experts helps solve the needs of industry and business through innovative, sustainable, cost-effective solutions. The Alabama Technology Network links industries and businesses with resources from a network of universities, colleges, businesses, and government to deliver the training needed to be more efficient, more productive, and more competitive. ATN partners with the two-year colleges, The University of Alabama System, and Auburn University to provide services through a variety of training options and methods, and are strategically located throughout the state to provide local points of contact. ATN, as part of the Alabama Community College System, is comprised of regional centers that link the University of Alabama System and Auburn University with fourteen two-year colleges throughout the state.

Alabama Technology Network (“ATN”) recently began its second decade of improving the competitiveness of Alabama’s existing industries by providing training to Alabama manufacturers. Formally established in 1995, the state legislature provided funding from the University of Alabama’s and Auburn University’s budgets to fund the initial centers. That same year, ATN became the National Institute of Standards and Technology’s Manufacturing Extension Partnership affiliate which expanded ATN’s role to include technical assistance and training to Alabama’s manufacturers. In 2004, ATN became part of the Alabama Community College System.

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# *Independent Auditor's Report*

## **Independent Auditor's Report**

Jimmy Baker, Chancellor – Alabama Community College System  
Keith Phillips, Executive Director – Alabama Technology Network  
Montgomery, Alabama 36104

### **Report on the Financial Statements**

We have audited the accompanying basic financial statements of Alabama Technology Network, a component unit of the State of Alabama, as of and for the year ended September 30, 2020, and related notes to the financial statements which collectively comprise Alabama Technology Network's basic financial statements as listed in the table of contents as Exhibits 1 through 3.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinion**

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Alabama Technology Network, as of September 30, 2020, and its changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Schedule of the Network's Proportionate Share of the Net Pension Liability, the Schedule of the Network's Contributions – Pension, the Schedule of the Network's Proportionate Share of the Net Other Postemployment Benefits Liability (OPEB) and the Schedule of the Network's Contributions – Other Postemployment Benefits (OPEB) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

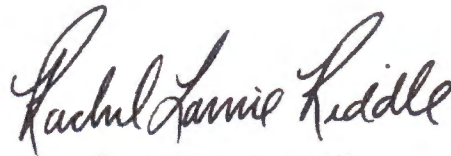
#### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Alabama Technology Network's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 8), is presented for the purposes of additional analysis, as required Title 2 U.S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*** (*Uniform Guidance*), and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with **Government Auditing Standards**, we have also issued our report dated July 27, 2021, on our consideration of Alabama Technology Network's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Alabama Technology Network's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** in considering Alabama Technology Network's internal control over financial reporting and compliance.



Rachel Laurie Riddle

Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

July 27, 2021

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*Management's Discussion and Analysis*  
*(Required Supplementary Information)*

# **Alabama Technology Network Management's Discussion and Analysis**

## **Overview of the Financial Statements and Financial Analysis**

The intent of the Management's Discussion and Analysis is to help the reader better understand the financial condition and activities of the organization that have occurred during the fiscal year ended September 30, 2020. This document has been prepared by management of the Alabama Technology Network (ATN) and should be read in conjunction with the financial statements and the notes to the financial statements.

ATN's financial report consists of the following statements:

- The Statement of Net Position
- The Statement of Revenues, Expenses, and Changes in Net Position
- The Statement of Cash Flows

The objective of these statements is to present the financial position, operating activities and cash flows of the organization.

## **Alabama Technology Network**

The Alabama Technology Network (ATN) provides workforce development and technical assistance to manufacturers and businesses throughout Alabama. Through the expertise of field staff located at fifteen community colleges, the University of Alabama in Tuscaloosa and Huntsville, and Auburn University, the network is making the state's industries more competitive. ATN accomplishes this by providing hands on training and technical assistance that create jobs, save jobs, increase sales, and/or reduce the cost of doing business.

ATN links the state's manufacturers with cutting edge solutions and resources from around the country. As an affiliate of the Department of Commerce's National Institute of Standards and Technology (NIST) Manufacturing Extension Partnership (MEP) program, ATN offers solutions in virtually all areas of manufacturers' operations.

ATN became part of the Alabama Community College System (ACCS) in October 2004. By joining the System, ATN has expanded its outreach and has been able to provide additional resources to assist more small and medium size companies throughout the state.

## **The Statement of Net Position**

The Statement of Net Position presents the assets, deferred outflows, liabilities, deferred inflows and net position. The Statement of Net Position is a point-in-time financial statement. The purpose of the Statement of Net Position is to present a fiscal snapshot of ATN. The Statement of Net Position presents end-of-year data concerning assets (current and noncurrent), deferred outflows, liabilities (current and noncurrent), deferred inflows, and net position (assets plus deferred outflows minus liabilities minus deferred inflows).

Net position is divided into three major categories. The first category, net investment in capital assets, provides the organization's equity in property, plant, and equipment owned by the organization. The next category is restricted Net Position, which is subdivided into nonexpendable and expendable classifications. Currently, ATN does not have a restricted component on these statements. Expendable restricted net position is available for expenditure by ATN but must be spent for purposes as determined by donors and/or external entities that have placed time or purposes restrictions on the use of the assets. The final major category, Unrestricted Net Position is available to the organization for any lawful purpose.

<b>Condensed Statement of Net Position</b>		
<b>Assets</b>	<b>FY 2020</b>	<b>FY 2019</b>
Current Assets	\$10,680,704	\$16,080,582
Capital Assets, net	504,980	628,505
<b>Total Assets</b>	<b>11,185,684</b>	<b>16,709,087</b>
<b>Deferred Outflows</b>	<b>1,478,744</b>	<b>1,471,652</b>
<b>Liabilities</b>		
Current Liabilities	911,124	7,359,912
Non-current Liabilities	636,037	559,110
Net Pension Liability	6,850,000	6,892,000
Net OPEB Liability	1,583,393	3,562,900
<b>Total Liabilities</b>	<b>9,980,554</b>	<b>18,373,922</b>
<b>Deferred Inflows</b>	<b>3,171,703</b>	<b>1,532,190</b>
<b>Net Position</b>		
Net Investment in Capital Assets	504,980	628,505
Unrestricted	(992,809)	(2,353,878)
<b>Total Net Position</b>	<b>\$ (487,829)</b>	<b>\$(1,725,373)</b>

### **Results of Operations**

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the fiscal year. Revenue and expense activities are categorized as either operating or non-operating. Operating revenues are received for providing goods and services to the various customers and constituencies of ATN. Operating expenses are those expenses incurred while carrying out programs offered by ATN. Non-operating revenues are revenues received for which goods and services are not provided. State appropriations are considered non-operating revenue.

Due to this operating/non-operating classification and because state appropriations are classified as non-operating, ATN's Statement of Revenues, Expenses, and Changes in Net Position reports an operating loss. This reported operating loss is typical of state supported/assisted organizations and demonstrates the reliance on State support. The operating loss for 2020 was \$4,185,919.

<b>Condensed Statement of Revenues, Expenses and Changes in Net Position</b>		
	FY 2020	FY 2019
Operating Revenues	\$ 3,857,974	\$ 4,258,889
Operating Expenses	8,043,893	8,171,710
Operating Loss	(4,185,919)	(3,912,821)
Non-operating Revenues/(Expenses)	5,462,383	5,223,883
Increase/(Decrease) in Net Position	1,276,464	1,311,062
Net Position at Beginning of Year	(1,725,373)	(3,073,726)
Restatements	(38,920)	37,291
Net Position at End of Year, as Restated	\$(487,829)	\$(1,725,373)

### **ATN's Cash Flows**

The Statement of Cash Flows presents detailed information about the cash activity of the organization during the fiscal year. This statement is designed to present the sources and uses of cash resources. GASB No. 34 classifies State appropriation and gift revenues, two sources of non-operating revenues relied upon heavily by institutions such as ATN, while classifying the related expenditures of these sources as operating expenses. The statement activity is categorized into five parts:

- Operating activities
- Non-capital financing activities
- Capital and related financing activities
- Investing activities
- A reconciliation of the net cash used to the operating income or loss reflected in the Statement of Revenues, Expenses, and Changes in Net Position

The first part deals with operating cash flows and shows the net cash used for the operating activities. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income reflected on the Statement of Revenues, Expenses, and Changes in Net Position.

<b>Condensed Statement of Cash Flows</b>		
	FY 2020	FY 2019
<b>Cash Provided (Used) By:</b>		
Operating Activities	\$(11,006,935)	\$(9,398,594)
Non-capital Financing Activities	5,448,518	5,189,065
Capital and Related Financing Activities	(131,940)	(7,217)
Investing Activities	13,864	34,818
Net Change in Cash	5,676,493	4,181,928
Cash, Beginning of Year	15,252,527	19,434,455
Cash, End of Year	\$ 9,576,034	\$ 15,252,527

The condensed statement presented above illustrates ATN's significant reliance upon State appropriations to meet its operating demands. Of the \$5,448,518 in cash provided by non-capital financing activities, 100% is attributable to state appropriations.

### **Economic Outlook**

Alabama Technology Network's overall financial position is strong. ATN will continue to safeguard all assets while operating regarding the policies as required. ATN is not aware of any other known facts, decisions, or conditions that are expected to have a significant impact on the financial position or results of operations in the next fiscal year. ATN will continue to focus its efforts on improving the productivity and competitiveness of our state's employers.

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# *Basic Financial Statements*

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# ***Statement of Net Position*** ***September 30, 2020***

## **ASSETS**

### **Current Assets**

Cash and Cash Equivalents	\$ 9,576,034.14
Accounts Receivable	1,104,669.71
Total Current Assets	<u>10,680,703.85</u>

### **Noncurrent Assets**

Capital Assets:	
Equipment and Furniture	3,020,367.31
Less: Accumulated Depreciation	(2,515,387.11)
Total Capital Assets, Net of Depreciation	<u>504,980.20</u>
Total Noncurrent Assets	<u>504,980.20</u>
Total Assets	<u>11,185,684.05</u>

## **DEFERRED OUTFLOW OF RESOURCES**

Defined Benefit Pension Plan	1,204,126.51
Other Postemployment Benefit Plan	274,617.60
Total Deferred Outflow of Resources	<u>1,478,744.11</u>

## **LIABILITIES**

### **Current Liabilities**

Accounts Payable and Accrued Liabilities	576,689.91
Deposits Held for Others	300,958.71
Compensated Absences	33,475.64
Total Current Liabilities	<u>911,124.26</u>

### **Noncurrent Liabilities**

Compensated Absences	636,037.19
Net Pension Liability	6,850,000.00
Net Other Postemployment Benefit Liability	1,583,393.00
Total Noncurrent Liabilities	<u>9,069,430.19</u>
Total Liabilities	<u>9,980,554.45</u>

## **DEFERRED INFLOW OF RESOURCES**

Defined Benefit Pension Plan	1,008,000.00
Other Postemployment Benefit Plan	2,163,703.00
Total Deferred Inflow of Resources	<u>3,171,703.00</u>

## **NET POSITION**

Net Investment in Capital Assets	504,980.20
Unrestricted	<u>(992,809.49)</u>
Total Net Position	<u>\$ (487,829.29)</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

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***Statement of Revenues, Expenses and Changes in Net Position***  
***For the Year Ended September 30, 2020***

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**OPERATING REVENUES**

Federal Grants and Contracts	\$ 2,147,879.41
State Grants and Contracts	42,600.00
Fees for Services	1,417,264.78
Other Operating Revenues	250,229.61
Total Operating Revenues	<u>3,857,973.80</u>

**OPERATING EXPENSES**

Instruction	6,391,591.71
Institutional Support	1,396,836.14
Depreciation	255,465.26
Total Operating Expenses	<u>8,043,893.11</u>

Operating Income (Loss)	<u>(4,185,919.31)</u>
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**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	5,448,518.00
Investment Income	13,864.48
Net Nonoperating Revenues	<u>5,462,382.48</u>
Changes in Net Position	1,276,463.17
Total Net Position - Beginning of Year, as Restated (Note 12)	<u>(1,764,292.46)</u>
Total Net Position - End of Year	<u><u>\$ (487,829.29)</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

# ***Statement of Cash Flows***

## ***For the Year Ended September 30, 2020***

### **CASH FLOWS FROM OPERATING ACTIVITIES**

Federal Grants and Contracts	\$ 1,957,692.96
State Grants and Contracts	(45,241.59)
Other Operating Revenues/(Expenses)	250,229.61
Payments to Suppliers	(8,931,024.00)
Payments to Employees	(4,498,639.89)
Payments for Employees Benefits	(1,408,360.44)
Fees for Services	1,668,407.60
Net Cash Provided (Used) by Operating Activities	<u>(11,006,935.75)</u>

### **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	5,448,518.00
Net Cash Provided (Used) by Noncapital Financing Activities	<u>5,448,518.00</u>

### **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Purchases of Capital Assets	(131,940.00)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(131,940.00)</u>

### **CASH FLOWS FROM INVESTING ACTIVITIES**

Interest on Investments	13,864.48
Net Cash Provided (Used) by Investing Activities	<u>13,864.48</u>

Net Increase/(Decrease) in Cash and Cash Equivalents	(5,676,493.27)
Cash and Cash Equivalents - Beginning of Year	15,252,527.41
Cash and Cash Equivalents - End of Year	<u><u>9,576,034.14</u></u>

### **Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:**

Operating Income (Loss)	(4,185,919.31)
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### **Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:**

Depreciation Expense	255,465.26
Changes in Assets and Liabilities:	
(Increase)/Decrease in Receivables	(276,615.50)
(Increase)/Decrease in Deferred Outflows	(7,091.63)
Increase/(Decrease) in Deposits Held for Others	(2,041,514.68)
Increase/(Decrease) in Accounts Payable	(4,417,545.20)
Increase/(Decrease) in Net Pension Liability	(42,000.00)
Increase/(Decrease) in OPEB Liability	(1,979,507.00)
Increase/(Decrease) in Deferred Inflows	1,639,513.00
Increase/(Decrease) in Compensated Absences	48,279.31

Net Cash Provided (Used) by Operating Activities	<u><u>\$ (11,006,935.75)</u></u>
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The accompanying Notes to the Financial Statements are an integral part of this statement.

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## ***Notes to the Financial Statements***

### ***For the Year Ended September 30, 2020***

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#### **Note 1 – Summary of Significant Accounting Policies**

The financial statements of Alabama Technology Network (the “Network”) are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Network are described below.

#### **A. Reporting Entity**

The Network is a component unit of the State of Alabama. A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable. The Governmental Accounting Standards Board (GASB) in Statement Number 14, "The Financial Reporting Entity," states that a primary government is financially accountable for a component unit if it appoints a voting majority of an organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. In this case, the primary government is the State of Alabama which through the Alabama Community College System Board of Trustees governs the Alabama Community College System. The Alabama Community College System through its Chancellor has the authority and responsibility for the operation, management, supervision and regulation Alabama Technology Network. In addition, the Network receives a substantial portion of its funding from the State of Alabama (potential to impose a specific financial burden). Based on these criteria, the Network is considered for financial reporting purposes to be a component unit of the State of Alabama.

#### **B. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The financial statements of Alabama Technology Network have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

It is the policy of the Network to first apply restricted resources when an expense is incurred and then apply unrestricted resources when both restricted and unrestricted resources are available.

The Statement of Revenues, Expenses and Changes in Net Position distinguishes between operating and nonoperating revenues. Operating revenues, such as fees, result from exchange transactions associated with the principal activities of the Network. Exchange transactions are those in which each party to the transactions receives or gives up essentially equal values. Nonoperating revenues arise from exchange transactions not associated with the Network's principal activities, such as investment income and from all nonexchange transactions, such as state appropriations.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2020*

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#### *C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position*

##### *1. Cash and Cash Equivalents*

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

##### *2. Receivables*

Accounts receivable relate to amounts due from federal and state grants and contracts and third parties. An allowance for doubtful accounts has not been established.

##### *3. Capital Assets*

Capital assets, other than intangibles, with a unit cost of over \$5,000 and an estimated useful life in excess of one year are recorded at historical cost or estimated cost if purchased or constructed. The capitalization threshold for intangible assets such as capitalized software and internally generated computer software is \$1 million and \$100,000 for easements and land use rights and patents, trademarks and copyrights. In addition, works of art and historical treasures and similar assets are recorded at their historical cost. Donated capital assets are recorded at acquisition value (an entry price). Construction in Progress is the only capital asset that is not depreciated. Depreciation is not allocated to a functional expense category. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized.

The method of depreciation and useful lives of the capital assets are as follows:

Assets	Depreciation Method	Useful Lives
Equipment	Composite	5 – 10 years

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## ***Notes to the Financial Statements***

### ***For the Year Ended September 30, 2020***

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#### **4. Deferred Outflows of Resources**

Deferred outflow of resources is reported in the Statement of Net Position. Deferred outflows of resources are defined as a consumption of net assets by the government that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets.

#### **5. Compensated Absences**

No liability is recorded for sick leave. Substantially all employees of the Network earn 12 days of sick leave each year with unlimited accumulation. Payment is not made to employees for unpaid sick leave at termination or retirement.

All non-instructional employees earn annual leave at a rate which varies from 12 to 24 days per year depending on duration of employment, with accumulation limited to 60 days. Payment is made to employees for unused leave at termination or retirement.

#### **6. Deferred Inflows of Resources**

Deferred inflows of resources are reported in the Statement of Net Position. Deferred inflows of resources are defined as an acquisition of net assets by the government that is applicable to a future reporting period. Deferred inflows of resources decrease net position, similar to liabilities.

#### **7. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, the Teachers' Retirement System of Alabama (the "Plan") financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.



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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2020*

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#### **8. Postemployment Benefits Other Than Pensions (OPEB)**

The Alabama Retired Education Employees' Health Care Trust (the "Trust") financial statements are prepared by using the economic resources measurement focus and accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Trust and additions to/deductions from the Trust's fiduciary net position. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due pursuant to plan requirements. Benefits are recognized when due and payable in accordance with the terms of the plan. Subsequent events were evaluated by management through the date the financial statements were issued.

#### **9. Net Position**

Net position is required to be classified for accounting and reporting purposes into the following categories:

- ◆ **Net Investment in Capital Assets** – Capital assets, including restricted capital assets, reduced by accumulated depreciation and by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. Any significant unspent related debt proceeds or inflows of resources at year-end related to capital assets are not included in the calculation.
- ◆ **Restricted:**
  - ✓ **Nonexpendable** – Net position subject to externally imposed stipulations that they be maintained permanently by the Network.
  - ✓ **Expendable** – Net position whose use by the Network is subject to externally imposed stipulations that can be fulfilled by actions of the Network pursuant to those stipulations or that expire by the passage of time.
- ◆ **Unrestricted** – Net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted resources may be designated for specific purposes by action of management or the Alabama Community College System Board of Trustees.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2020*

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#### **10. Federal Financial Assistance Programs**

The Network participates in various federal programs. Federal programs are audited in accordance with Title 2 U. S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (*Uniform Guidance*).

#### **Note 2 – Deposits**

The Network's deposits at year-end were held by financial institutions in the State of Alabama's Security for Alabama Funds Enhancement (SAFE) Program. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program, all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

#### **Note 3 – Receivables**

Receivables are reported and summarized as follows:

<u>Accounts Receivable:</u>	
Federal	\$ 684,382.29
State	180,542.65
Private	239,744.77
Total Accounts Receivable	<u>\$1,104,669.71</u>

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2020*

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#### **Note 4 – Capital Assets**

Capital asset activity for the year ended September 30, 2020, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
Equipment	\$2,895,827.31	\$ 131,940.00	\$7,400.00	\$3,020,367.31
Total	2,895,827.31	131,940.00	7,400.00	3,020,367.31
Less: Accumulated Depreciation				
Equipment	2,267,321.85	255,465.26	7,400.00	2,515,387.11
Total Accumulated Depreciation	2,267,321.85	255,465.26	7,400.00	2,515,387.11
Total Capital Assets, Net	\$ 628,505.46	\$(123,525.26)	\$	\$ 504,980.20

#### **Note 5 – Defined Benefit Pension Plan**

##### **A. Plan Description**

The Teachers' Retirement System of Alabama (TRS), a cost-sharing multiple-employer public employee retirement plan (the "Plan"), was established as of September 15, 1939, under the provisions of Act Number 419, Acts of Alabama 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control. The TRS Board of Control consists of 15 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975*, Section 16-25-2, grants the authority to establish and amend the benefit terms to the TRS Board of Control. The Plan issues a publicly available financial report that can be obtained at [www.rsa-al.gov](http://www.rsa-al.gov).

##### **B. Benefits Provided**

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after 10 years of creditable service. TRS members are eligible for retirement after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the TRS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2020*

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Act Number 2012-377, Acts of Alabama, established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. Members are eligible for disability retirement if they have 10 years of creditable service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status and eligibility for retirement. Preretirement death benefits equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending June 30 are paid to a qualified beneficiary.

#### **C. Contributions**

Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the TRS were required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers and firefighters of the TRS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the TRS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 8.50% of earnable compensation.

Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 7% of earnable compensation.

Participating employers' contractually required contribution rate for the year ended September 30, 2020, was 12.43% of annual pay for Tier 1 members and 11.34% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Network were \$556,126.51 for the year ended September 30, 2020.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2020*

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#### **D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At September 30, 2020, the Network reported a liability of \$6,850,000.00 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2018. The Network's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2019, the Network's proportion was 0.061948% which was a decrease of 0.007368% from its proportion measured as of September 30, 2018.

For the year ended September 30, 2020, the Network recognized pension expense of \$431,000.00. At September 30, 2020, the Network reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 101,000.00	\$ 227,000.00
Changes of assumptions	211,000.00	
Net difference between projected and actual earnings on pension plan investments	239,000.00	
Changes in proportion and differences between employer contributions and proportionate share of contributions	97,000.00	781,000.00
Employer contributions subsequent to the measurement date	556,126.51	
Total	<u>\$1,204,126.51</u>	<u>\$1,008,000.00</u>

The \$556,126.51 reported as deferred outflows of resources related to pensions resulting from Network contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized in pension expense as follows:

Year Ending:	
September 30, 2021	\$(209,000.00)
2022	\$(154,000.00)
2023	\$ 11,000.00
2024	\$ 9,000.00
2025	\$ (17,000.00)
Thereafter	\$ 0

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2020*

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#### E. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Investment Rate of Return (*)	7.70%
Projected Salary Increases	3.25-5.00%

(\*) Net of pension plan investment expense

The actuarial assumptions used in the September 30, 2018 valuation were based on the results of an actuarial experience study for the period October 1, 2010 through September 30, 2015.

Mortality rates were based on the RP-2000 White Collar Mortality Table projected to 2020 using Scale BB and adjusted 115% for males and 112% for females age 78 and older. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using Scale BB and adjusted 105% for males and 120% for females.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

	Target Allocation	Long-Term Expected Rate of Return (*)
Fixed Income	17.00%	4.40%
U. S. Large Stocks	32.00%	8.00%
U. S. Mid Stocks	9.00%	10.00%
U. S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash Equivalents	3.00%	1.50%
Total	<u>100.00%</u>	

(\*) Includes assumed rate of inflation of 2.50%.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2020*

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#### **F. Discount Rate**

The discount rate used to measure the total pension liability was 7.70%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

#### **G. Sensitivity of the Network's Proportionate Share of the Collective Net Pension Liability to Changes in the Discount Rate**

The following table presents the Network's proportionate share of the collective net pension liability calculated using the discount rate of 7.70%, as well as what the Network's proportionate share of the collective net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.70%) or 1-percentage point higher (8.70%) than the current rate:

	1% Decrease (6.70%)	Current Discount Rate (7.70%)	1% Increase (8.70%)
Network's proportionate share of collective net pension liability	\$9,299	\$6,850	\$4,777
(Dollar Amounts in Thousands)			

#### **H. Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2019. The supporting actuarial information is included in the GASB Statement Number 67 Report for the TRS prepared as of September 30, 2019. The auditor's report dated August 18, 2020 on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2019 along with supporting schedules is also available. The additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2020*

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#### **Note 6 – Other Postemployment Benefits (OPEB)**

##### **A. Plan Description**

The Alabama Retired Education Employees' Health Care Trust (the "Trust") is a cost-sharing multiple-employer defined benefit postemployment healthcare plan that administers healthcare benefits to the retirees of participating state and local educational institutions. The Trust was established under the Alabama Retiree Health Care Funding Act of 2007 which authorized and directed the Public Education Employees' Health Insurance Board (PEEHIB) to create an irrevocable trust to fund postemployment healthcare benefits to retirees participating in the Public Education Employees' Health Insurance Plan (PEEHIP). Active and retiree health insurance benefits are paid through PEEHIP. In accordance with GASB, the Trust is considered a component unit of the State of Alabama (the "State") and is included in the State's Comprehensive Annual Financial Report.

The PEEHIP was established in 1983 pursuant to the provisions of the *Code of Alabama 1975*, Section 16-25A-4, (Act Number 83-455, Acts of Alabama) to provide a uniform plan of health insurance for active and retired employees of state and local educational institutions which provide instruction at any combination of grades K-14 (collectively, eligible employees), and to provide a method for funding the benefits related to the plan. The four-year universities participate in the plan with respect to their retired employees and are eligible and may elect to participate in the plan with respect to their active employees. Responsibility for the establishment of the health insurance plan and its general administration and operations is vested in the PEEHIB. The PEEHIB is a corporate body for purposes of management of the health insurance plan. The *Code of Alabama 1975*, Section 16-25A-4, provides the PEEHIB with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years for the plan. All assets of the PEEHIP are held in trust for the payment of health insurance benefits. The Teachers' Retirement System of Alabama (TRS) has been appointed as the administrator of the PEEHIP and, consequently, serves as the administrator of the Trust.

##### **B. Benefits Provided**

PEEHIP offers a basic hospital medical plan to active members and non-Medicare eligible retirees. Benefits include inpatient hospitalization for a maximum of 365 days without a dollar limit, inpatient rehabilitation, outpatient care, physician services, and prescription drugs.

Active employees and non-Medicare eligible retirees who do not have Medicare eligible dependents can enroll in a health maintenance organization (HMO) in lieu of the basic hospital medical plan. The HMO includes hospital medical benefits, dental benefits, vision benefits, and an extensive formulary. However, participants in the HMO are required to receive care from a participating physician in the HMO plan.



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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2020*

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The PEEHIP offers four optional plans (Hospital Indemnity, Cancer, Dental, and Vision) that may be selected in addition to or in lieu of the basic hospital medical plan or HMO. The Hospital Indemnity Plan provides a per-day benefit for hospital confinement, maternity, intensive care, cancer, and convalescent care. The Cancer Plan covers cancer disease only and benefits are provided regardless of other insurance. Coverage includes a per-day benefit for each hospital confinement related to cancer. The Dental Plan covers diagnostic and preventative services, as well as basic and major dental services. Diagnostic and preventative services include oral examinations, teeth cleaning, x-rays, and emergency office visits. Basic and major services include fillings, general aesthetics, oral surgery not covered under a Group Medical Program, periodontics, endodontics, dentures, bridgework, and crowns. Dental services are subject to a maximum of \$1,250 per year for individual coverage and \$1,000 per person per year for family coverage. The Vision Plan covers annual eye examinations, eyeglasses, and contact lens prescriptions.

PEEHIP members may opt to elect the PEEHIP Supplemental Plan as their hospital medical coverage in lieu of the PEEHIP Hospital Medical Plan. The PEEHIP Supplemental Plan provides secondary benefits to the member's primary plan provided by another employer. Only active and non-Medicare retiree members and dependents are eligible for the PEEHIP Supplemental Plan. There is no premium required for this plan, and the plan covers most out-of-pocket expenses not covered by the primary plan. The plan cannot be used as a supplement to Medicare, the PEEHIP Hospital Medical Plan, or the State or Local Governmental Plans administered by the State Employees' Insurance Board (SEIB).

Medicare eligible members and Medicare eligible dependents who are covered on a retiree contract were enrolled in the United Healthcare Group Medicare Advantage plan for PEEHIP retirees. Effective January 1, 2020, Humana Insurance Company replaced United Healthcare as the administrator of the PEEHIP Group Medicare Advantage (PPO) Plan. The plan is fully insured, and members are able to have all of their Medicare Part A (hospital insurance), Part B (medical insurance), and Part D (prescription drug coverage) in one convenient plan. Retirees can continue to see their same providers with no interruption and see any doctor who accepts Medicare on a national basis. Members have the same benefits in and out-of-network and there is no additional retiree cost share if a retiree uses an out-of-network provider and no balance billing from the provider.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2020*

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#### **C. Contributions**

The *Code of Alabama 1975*, Section 16-25A-8, and the *Code of Alabama 1975*, Section 16-25A-8.1, provide the PEEHIB with the authority to set the contribution requirements for plan members and the authority to set the employer contribution requirements for each required class, respectively. Additionally, the PEEHIB is required to certify to the Governor and the Legislature, the amount, as a monthly premium per active employee, necessary to fund the coverage of active and retired member benefits for the following fiscal year. The Legislature then sets the premium rate in the annual appropriation bill.

For employees who retired after September 30, 2005, but before January 1, 2012, the employer contribution of the health insurance premium set forth by the PEEHIB for each retiree class is reduced by 2% for each year of service less than 25 and increased by 2% for each year of service over 25 subject to adjustment by the PEEHIB for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree.

For employees who retired after December 31, 2011, the employer contribution to the health insurance premium set forth by the PEEHIB for each retiree class is reduced by 4% for each year of service less than 25 and increased by 2% for each year over 25, subject to adjustment by the PEEHIB for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree. For employees who retired after December 31, 2011, who are not covered by Medicare, regardless of years of service, the employer contribution to the health insurance premium set forth by the PEEHIB for each retiree class is reduced by a percentage equal to 1% multiplied by the difference between the Medicare entitlement age and the age of the employee at the time of retirement as determined by the PEEHIB. This reduction in the employer contribution ceases upon notification to the PEEHIB of the attainment of Medicare coverage.

#### **D. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

At September 30, 2020, the Network reported a liability of \$1,589,393.00 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of September 30, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2018. The Network's proportion of the collective net OPEB liability was based on a projection of the Network's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2019, the Network's proportion was 0.041969%, which was a decrease of 0.001382% from its proportion measured as of September 30, 2018.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2020*

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For the year ended September 30, 2020, the Network recognized OPEB expense of \$(191,717.00) with no special funding situations. At September 30, 2020, the Network reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 52,428.00	\$1,214,077.00
Changes of assumptions	75,696.00	655,851.00
Net difference between projected and actual earnings on OPEB plan investments	3,266.00	
Changes in proportion and differences between employer contributions and proportionate share of contributions	72,178.00	293,775.00
Employer contributions subsequent to the measurement date	71,049.60	
Total	\$274,617.60	\$2,163,703.00

The \$71,049.60 reported as deferred outflows of resources related to OPEB resulting from the Network's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2021.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending:	
September 30, 2021	\$(418,237.00)
2022	\$(418,237.00)
2023	\$(414,088.00)
2024	\$(318,406.00)
2025	\$(333,010.00)
Thereafter	\$ (58,157.00)

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2020*

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#### *E. Actuarial Assumptions*

The total OPEB liability was determined by an actuarial valuation as of September 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Projected Salary Increases (1)	3.25% - 5.00%
Long-Term Investment Rate of Return (2)	7.25%
Municipal Bond Index Rate at the Measurement Date	3.00%
Municipal Bond Index Rate at the Prior Measurement Date	4.18%
Projected Year for Fiduciary Net Position (FNP) to be Depleted	2055
Single Equivalent Interest Rate at the Measurement Date	5.50%
Single Equivalent Interest Rate at the Prior Measurement Date	4.44%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	6.75%
Medicare Eligible	(**)
Ultimate Trend Rate:	
Pre-Medicare Eligible	4.75% in 2026
Medicare Eligible	4.75% in 2024

(1) Includes 3.00% wage inflation.

(2) Compounded annually, net of investment expense, and includes inflation.

(\*\*) Initial Medicare claims are set based on scheduled increases through plan year 2022

Mortality rates for the period after service retirement are according to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

The decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2015, submitted to and adopted by the Teachers' Retirement System of Alabama Board on September 13, 2016.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) were based on the actuarial valuation as of September 30, 2018. However, updated Medicare Advantage premium rates which reflect the repeal of the ACS Health Insurer Fee, updated optional claims costs, and updated participation assumptions were used in this report.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2020*

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The long-term expected return on plan assets is to be reviewed as part of regular experience studies prepared every five years, in conjunction with similar analysis for the Teachers' Retirement System of Alabama. Several factors should be considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation), as developed for each major asset class. These ranges should be combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The long-term expected rate of return on the OPEB plan investments is determined based on the allocation of assets by asset class and by the mean and variance of real returns.

The target asset allocation and best estimates of expected geometric real rates of return for each major asset class is summarized below:

Asset Class	Target Allocation	Long-Term Expected Rate of Return (*)
Fixed Income	30.00%	4.40%
U. S. Large Stocks	38.00%	8.00%
U. S. Mid Stocks	8.00%	10.00%
U. S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	15.00%	9.50%
Cash Equivalents	5.00%	1.50%
Total	<u>100.00%</u>	
(*) Geometric mean, includes 2.5% inflation		

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2020*

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#### **F. Discount Rate**

The discount rate, also known as the Single Equivalent Interest Rate (SEIR), as described by GASB Statement Number 74, used to measure the total OPEB liability at September 30, 2019, was 5.50%. The discount rate used to measure the total OPEB liability at the prior measurement date was 4.44%. Premiums paid to the Public Education Employees' Health Insurance Board for active employees shall include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Approximately, 24.245% of the employer contributions were used to assist in funding retiree benefit payments in 2019, and it is assumed that the amount will increase by 1.00% per year and continue into the future. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. The rate used for this purpose is the monthly average of the Bond Buyers General Obligation 20-year Municipal Bond Index Rate. Therefore, the projected future benefit payments for all current plan members were projected through 2117. The long-term rate of return is used until the assets are expected to be depleted in 2055, after which the municipal bond rate is used.

#### **G. Sensitivity of the Network's Proportionate Share of the Collective Net OPEB Liability to Changes in the Healthcare Cost Trend Rates**

The following table presents the Network's proportionate share of the collective net OPEB liability of the Trust calculated using the current healthcare trend rate, as well as what the collective net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (5.75% Decreasing to 3.75% for Pre-Medicare and Known Decreasing to 3.75% for Medicare Eligible)	Current Healthcare Trend Rate (6.75% Decreasing to 4.75% for Pre-Medicare and Known Decreasing to 4.75% for Medicare Eligible)	1% Increase (7.75% Decreasing to 5.75% for Pre-Medicare and Known Decreasing to 5.75% for Medicare Eligible)
Network's proportionate share of the collective net OPEB liability	\$1,269,596	\$1,583,393	\$1,978,606

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2020*

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#### **H. Sensitivity of the Network's Proportionate Share of the Collective Net OPEB Liability to Changes in the Discount Rate**

The following table presents the Network's proportionate share of the collective net OPEB liability of the Trust calculated using the discount rate of 5.50%, as well as what the collective net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (4.50%)	Current Rate (5.50%)	1% Increase (6.50%)
Network's proportionate share of the collective net OPEB liability	\$1,913,897	\$1,583,393	\$1,313,480

#### **I. OPEB Plan Fiduciary Net Position**

Detailed information about the OPEB plan's fiduciary net position is located in the Trust's financial statements for the fiscal year ended September 30, 2019. The supporting actuarial information is included in the GASB Statement Number 74 Report for PEEHIP prepared as of September 30, 2019. Additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

#### **Note 7 – Other Significant Commitments**

As of September 30, 2020, Alabama Technology Network had been awarded approximately \$647,601.00 in grants on which performance had not been accomplished and funds had not been received. These awards, which represent commitments of sponsors to provide funds for specific purposes, have not been reflected in the financial statements.

#### **Note 8 – Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities represent amounts due at September 30, 2020, for goods and services received prior to the end of the fiscal year.

Supplies	\$433,167.76
Benefits	143,522.15
Total	<u>\$576,689.91</u>

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2020*

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#### *Note 9 – Lease Obligations*

##### *Operating Leases*

Alabama Technology Network is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights. During the fiscal year ended September 30, 2020, Alabama Technology Network paid a total of \$121,740.00 for operating leases.

The following is a schedule by fiscal year of future minimum rental payments required under operating leases for facilities that have an initial or remaining non-cancelable lease term in excess of one year as of September 30, 2020:

	Facilities
2020-2021	\$9,900.00
Total Minimum Payments Required	<u>\$9,900.00</u>

#### *Note 10 – Long-Term Liabilities*

Long-term liabilities activity for the year ended September 30, 2020, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated Absences	\$621,233.52	\$90,582.84	\$42,303.53	\$669,512.83	\$33,475.64
Total Long-Term Liabilities	<u>\$621,233.52</u>	<u>\$90,582.84</u>	<u>\$42,303.53</u>	<u>\$669,512.83</u>	<u>\$33,475.64</u>



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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2020*

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#### **Note 11 – Risk Management**

Alabama Technology Network is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Alabama Technology Network has insurance for its buildings and contents through the State Insurance Fund (SIF), part of the State of Alabama, Department of Finance; Division of Risk Management which operates as a common risk management and insurance program for state owned properties. Alabama Technology Network pays an annual premium based on the amount of coverage requested. The SIF provides coverage up to \$2 million per occurrence and is self-insured up to a maximum of \$6 million in aggregate claims. The SIF purchases commercial insurance for claims which in the aggregate exceed \$6 million. Alabama Technology Network purchases commercial insurance for its automobile coverage, general liability, and professional legal liability coverage. In addition, Alabama Technology Network has fidelity bonds on Alabama Technology Network's Executive Director and Director of Finance and Accounting as well as on all other personnel who handle funds.

Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF) administered by the Public Education Employees' Health Insurance Board (PEEHIB). The Fund was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are determined annually by the plan's actuary and based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. Alabama Technology Network contributes a specified amount monthly to the PEEHIF for each employee and this amount is applied against the employee's premiums for the coverage selected and the employee pays any remaining premium.

Settled claims resulting from these risks have not exceeded Alabama Technology Network's coverage in any of the past three fiscal years.

Claims which occur as a result of employee job-related injuries may be brought before the State of Alabama Board of Adjustment. The Board of Adjustment serves as an arbitrator and its decision is binding. If the Board of Adjustment determines that a claim is valid, it decides the proper amount of compensation (subject to statutory limitations) and the funds are paid by Alabama Technology Network.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2020*

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#### **Note 12 – Net Position Restatement**

Prior period adjustments have been made as outlined below:

Beginning Net Position, September 30, 2019	\$(1,725,372.38)
Correct Prior Year Payables	(38,920.08)
Total Adjustments	<u>(38,920.08)</u>
Net Position, October 1, 2019, as Restated	<u>\$(1,764,292.46)</u>

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## *Required Supplementary Information*

***Schedule of the Network's Proportionate Share of the Collective Net Pension Liability***  
***For the Year Ended September 30, 2020***  
***(Dollar amounts in thousands)***

	2020	2019	2018	2017	2016	2015
Network's proportion of the collective net pension liability	0.061948%	0.069316%	0.067785%	0.070266%	0.072537%	0.076160%
Network's proportionate share of the collective net pension liability	\$ 6,850	\$ 6,892	\$ 6,662	\$ 7,607	\$ 7,591	\$ 6,919
Network's covered payroll during the measurement period (*)	\$ 4,370	\$ 4,600	\$ 4,450	\$ 4,461	\$ 4,569	\$ 4,677
Network's proportionate share of the collective net pension liability as a percentage of its covered payroll	156.75%	149.83%	149.71%	170.52%	166.14%	147.94%
Plan fiduciary net position as a percentage of the total collective pension liability	69.85%	72.29%	71.50%	67.93%	67.51%	71.01%

(\*) Per GASB 82, which amends GASB 68, covered payroll is defined as the payroll on which contributions to a pension plan are based, also known as pensionable payroll. For the fiscal year 2020, the measurements period for covered payroll is October 1, 2018 through September 30, 2019.

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

***Schedule of the Network's Contributions - Pension***  
***For the Year Ended September 30, 2020***  
***(Dollar amounts in thousands)***

	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 556	\$ 538	\$ 556	\$ 530	\$ 528	\$ 518
Contributions in relation to the contractually required contribution	\$ 556	\$ 538	\$ 556	\$ 530	\$ 528	\$ 518
Contribution deficiency (excess)	\$	\$	\$	\$	\$	\$
Network's covered payroll	\$ 4,523	\$ 4,370	\$ 4,600	\$ 4,450	\$ 4,461	\$ 4,569
Contributions as a percentage of covered payroll	12.29%	12.31%	12.09%	11.91%	11.84%	11.34%

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Per GASB 82, which amends GASB 68, covered payroll is defined as the payroll on which contributions to a pension plan are based, also known as pensionable payroll. For fiscal year 2020, covered payroll is for the reporting fiscal year of October 1, 2019 through September 30, 2020.

The amount of contractually required contributions is equal to the amount that would be recognized as additions from the Network's contributions in the pension plan's schedule of changes in fiduciary net position during the period that coincides with the Network's fiscal year. For participants in TRS, this includes amounts paid for Accrued Liability, Normal Cost, Term Life Insurance, Pre-Retirement Death Benefit and Administrative Expenses.

***Schedule of the Network's Proportionate Share of the Collective Net Other Postemployment Benefits (OPEB) Liability***  
***Alabama Retired Education Employees' Health Care Trust***  
***For the Year Ended September 30, 2020***  
***(Dollar amounts in thousands)***

	2020	2019	2018
Network's proportion of the collective net OPEB liability	0.041969%	0.043351%	0.042058%
Network's proportionate share of the collective net OPEB liability (asset)	\$ 1,583	\$ 3,563	\$ 3,124
Network's covered-employee payroll during the measurement period (*)	\$ 4,370	\$ 4,600	\$ 4,450
Network's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	36.22%	77.46%	70.20%
Plan fiduciary net position as a percentage of the total collective OPEB liability	28.14%	14.81%	15.37%

(\*) Per GASB 75, covered-employee payroll is defined as the payroll of employees that are provided with OPEB through the OPEB plan. The covered covered-employee payroll for this RSI Schedule (GASB 75 paragraph 97) is for the reporting period (i.e. the measurement period), which for the September 30, 2020 year is October 1, 2018 through September 30, 2019.

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

***Schedule of the Network's Contributions - Other Postemployment Benefits (OPEB)***  
***Alabama Retired Education Employees' Health Care Trust***  
***For the Year Ended September 30, 2020***  
***(Dollar amounts in thousands)***

	2020	2019	2018
Contractually required contribution	\$ 71	\$ 118	\$ 106
Contributions in relation to the contractually required contribution	\$ 71	\$ 118	\$ 106
Contribution deficiency (excess)	\$	\$	\$
Network's covered-employee payroll	\$ 4,523	\$ 4,370	\$ 4,600
Contributions as a percentage of covered-employee payroll	1.57%	2.70%	2.30%

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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***Notes to Required Supplementary Information for  
Other Postemployment Benefits (OPEB)  
For the Year Ended September 30, 2020***

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**Changes in Actuarial Assumptions**

In 2019, the anticipated rates of participation, spouse coverage, and tobacco use were adjusted to more closely reflect actual experience.

In 2016, rates of withdrawal, retirement, disability, mortality, spouse coverage, and tobacco usage were adjusted to more closely reflect actual experience. In 2016, economic assumptions and the assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. In 2016 and later, the expectation of retired life mortality was changed to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using Scale BB and adjusted 105% for males and 120% for females.

**Recent Plan Changes**

Beginning in plan year 2021, the MAPD plan premium rates exclude the ACA Health Insurer Fee which was repealed on December 20, 2019.

Effective January 1, 2017, Medicare eligible medical and prescription drug benefits are provided through the MAPD plan.

The Health Plan is changed each year to reflect the ACA maximum annual out-of-pocket amounts.



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***Notes to Required Supplementary Information for  
Other Postemployment Benefits (OPEB)  
For the Year Ended September 30, 2020***

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**Method and Assumptions Used in Calculations of Actuarially Determined Contributions**

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Therefore, the actuarially determined employer contribution for fiscal year ending September 30, 2019 is determined based on the actuarial valuation as of September 30, 2016. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	25 years, closed
Asset Valuation Method	Market Value of Assets
Inflation	2.875%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	7.75%
Medicare Eligible	5.00%
Ultimate Trend Rate:	
Pre-Medicare Eligible	5.00%
Medicare Eligible	5.00%
Year of Ultimate Trend Rate	2022 for Pre-Medicare Eligible 2018 for Medicare Eligible
Investment Rate of Return	5.00%, including inflation

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## *Supplementary Information*

***Schedule of Expenditures of Federal Awards***  
***For the Year Ended September 30, 2020***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Pass-Through to Subrecipient</b>	<b>Total Federal Expenditures</b>
<b><u>Federal Awards</u></b>				
<b><u>U. S. Department of Commerce</u></b>				
<b><u>Direct Program</u></b>				
Manufacturing Extension Partnership	11.611		\$ 449,043.27	\$ 1,942,802.00
COVID-19 - Manufacturing Extension Partnership	11.611			166,677.41
Total Manufacturing Extension Partnership				<u>2,109,479.41</u>
<b><u>Passed Through Alabama Community College System</u></b>				
Appalachian Area Development	23.002	PW-19343-IM		<u>38,400.00</u>
Total Expenditures of Federal Awards				<u><u>\$ 2,147,879.41</u></u>

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

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## ***Notes to the Schedule of Expenditures of Federal Awards***

### ***For the Year Ended September 30, 2020***

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#### **Note 1 – Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of Alabama Technology Network under programs of the federal government for the year ended September 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)***. Because the Schedule presents only a selected portion of the operations of Alabama Technology Network, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Network.

#### **Note 2 – Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the *Uniform Guidance*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

#### **Note 3 – Indirect Cost Rate**

Alabama Technology Network has elected not to use the 10-percent de minimis indirect cost rate as allowed in the *Uniform Guidance*.

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## *Additional Information*

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***Alabama Technology Network Officials***  
***October 1, 2019 through September 30, 2020***

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<b>Officials</b>	<b>Position</b>
Jimmy Baker	Chancellor – Alabama Community College System
Keith Phillips	Executive Director
Jody Upchurch	Director of Finance and Accounting



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# ***Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards***

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## **Independent Auditor's Report**

Jimmy Baker, Chancellor – Alabama Community College System  
Keith Phillips, Executive Director – Alabama Technology Network  
Montgomery, Alabama 36104

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards*** issued by the Comptroller General of the United States, the financial statements of Alabama Technology Network, a component unit of the State of Alabama, as of and for the year ended September 30, 2020, and related notes to the financial statements, which collectively comprise Alabama Technology Network's basic financial statements and have issued our report thereon dated July 27, 2021.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Alabama Technology Network's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Alabama Technology Network's internal control. Accordingly, we do not express an opinion on the effectiveness of Alabama Technology Network's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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# ***Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards***

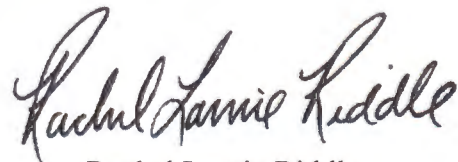
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## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Alabama Technology Network's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Rachel Laurie Riddle  
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

July 27, 2021

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# ***Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance***

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## **Independent Auditor's Report**

Jimmy Baker, Chancellor – Alabama Community College System  
Keith Phillips, Executive Director – Alabama Technology Network  
Montgomery, Alabama 36104

## **Report on Compliance for Each Major Federal Program**

We have audited Alabama Technology Network's, a component unit of the State of Alabama, compliance with the types of compliance requirements described in the **OMB Compliance Supplement** that could have a direct and material effect on each of Alabama Technology Network's major federal programs for the year ended September 30, 2020. Alabama Technology Network's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs.

## **Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

## **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance with each of Alabama Technology Network's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U. S. **Code of Federal Regulations** Part 200, **Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards** (*Uniform Guidance*). Those standards and the *Uniform Guidance* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Alabama Technology Network's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Alabama Technology Network's compliance.

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## ***Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance***

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### **Opinion on Each Major Federal Program**

In our opinion, Alabama Technology Network complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2020.

### **Report on Internal Control Over Compliance**

Management of Alabama Technology Network is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Alabama Technology Network's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Alabama Technology Network's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

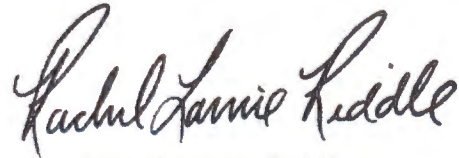
Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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***Report on Compliance for Each Major Federal Program  
and Report on Internal Control Over Compliance  
Required by the Uniform Guidance***

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The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *Uniform Guidance*. Accordingly, this report is not suitable for any other purpose.



Rachel Laurie Riddle  
Chief Examiner  
Department of Examiners of Public Accounts

Montgomery, Alabama

July 27, 2021

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## ***Schedule of Findings and Questioned Costs***

### ***For the Year Ended September 30, 2020***

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### **Section I – Summary of Examiner's Results**

#### **Financial Statements**

Type of report the auditor issued on whether the  
audited financial statements were prepared  
in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ Yes      X   No

Significant deficiency(ies) identified?

\_\_\_\_\_ Yes      X   None reported

Noncompliance material to financial  
statements noted?

\_\_\_\_\_ Yes      X   No

#### **Federal Awards**

Internal control over major federal programs:

Material weakness(es) identified?

\_\_\_\_\_ Yes      X   No

Significant deficiency(ies) identified?

\_\_\_\_\_ Yes      X   None reported

Type of auditor's report issued on compliance  
for major federal programs:

Unmodified

Any audit findings disclosed that are required  
to be reported in accordance with  
2 CFR 200.516(a) of the *Uniform Guidance*?

\_\_\_\_\_ Yes      X   No

Identification of major federal programs:

CFDA Number	Name of Federal Program or Cluster
11.611	Manufacturing Extension Partnership

Dollar threshold used to distinguish between  
Type A and Type B programs:

\$750,000.00

Auditee qualified as low-risk auditee?

  X   Yes    \_\_\_\_\_ No

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***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2020***

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**Section II – Financial Statement Findings (GAGAS)**

No matters were reportable.

**Section III – Federal Awards Findings and Questioned Costs**

No matters were reportable.